Financial Ombudsman Service

complaint

Mr K has complained that Welcome Financial Services Limited (Welcome) mis-sold him payment protection insurance (PPI) policy.

background

Mr K took out a personal loan with Welcome in July 2004. At the same time he was sold a single premium PPI policy. Mr K paid for this policy by an upfront premium added to his loan balance.

In February 2012 Welcome offered to settle Mr K's mis-sale complaint. The offer was made up of a refund of PPI premiums and interest plus an amount at 8% simple interest per year to compensate Mr K for being out of pocket for this time. The offer came to £1,274.28. Mr K didn't accept this offer.

In 2015 Welcome contacted Mr K again. It says it was able to work out a more accurate offer. This time it found the amount due to Mr K was £947.69 after tax. Welcome told Mr K it would use this offer to reduce the amount he owed under his loan agreement. Mr K didn't think Welcome's offer was fair so he brought his complaint to this service.

The adjudicator thought Welcome had acted fairly in the circumstances so didn't uphold Mr K's complaint. Mr K disagreed with the adjudicator's opinion so the case has been passed to me.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Welcome initially said we shouldn't look at this complaint. It doesn't believe Mr K has any valid grounds for complaint. The rules say I can choose not to consider Mr K's complaint if there are compelling reasons why it would be inappropriate to look at the complaint. In other words, I can dismiss a complaint if I think it's the right thing to do.

But Mr K is entitled to bring his complaint to us. He is unhappy with how Welcome has used his PPI refund. I think it would be helpful for Mr K to have an answer that deals with this issue. So I'm not going to dismiss this complaint.

Welcome has agreed to settle Mr K's mis-sale complaint so I'm not going to look at how it sold him the policy. Instead I'm going to look at whether its offer is fair.

I think Welcome has acted fairly in the circumstances.

We expect a business who mis-sold PPI with a loan to put matters right by putting consumers into the position they'd be in now if they had taken the loan without PPI.

So I'd expect a business to work out the difference between what they actually paid on their loan and what they would've paid if they hadn't taken out PPI with their loan. And it should add 8% simple interest per year for the time the consumer has been out of pocket.

I can see Welcome has followed this approach. It refunded the total amount Mr K had been charged for his policy - £673.39 and the amount he was due in 8% simple interest after tax - £274.30. I'm satisfied that Welcome has worked out Mr K's offer fairly.

I now turn to Mr K's point that it was unfair for Welcome to use this refund to reduce his outstanding debt. We would normally say that a business is allowed to use the money it owes a consumer to reduce outstanding arrears. Put simply Welcome owes Mr K £947.69 but Mr K owes Welcome more than this. So it has used the PPI compensation to reduce what Mr K owes.

And some of the outstanding debt relates to what Mr K borrowed for the PPI premium but didn't pay back. So I don't think it would be fair for Mr K to get back something he never paid in the first place.

I understand Mr K is unhappy that part of the debt he owes Welcome is made up of charges added to the account. But the charges applied to Mr K's loan account weren't related to this PPI policy – so this doesn't change my decision. I think it's fair for Welcome to use the PPI refund to reduce Mr K's outstanding debt. A separate complaint has been set up to look into the fees and charges applied to Mr K's loan account.

my final decision

For the reason set out above I think what Welcome Financial Services Limited has done is fair, so I'm not going to tell it to do anything more.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 12 February 2016.

Lucy Wilson
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